

The 2006 – 2008 Executive Branch Budget

Most of the Enacted Budget Embodies the Governor's Initiatives and Recommended Funding

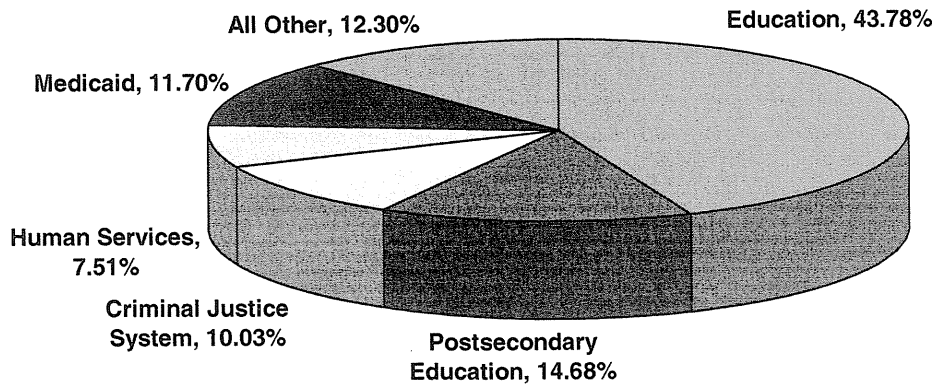
- **K-12 Education**
 - Teacher compensation
 - Additional school days
 - Technology
 - Read to Achieve
 - School construction
- **Postsecondary Education**
 - Base funding increases
 - Regional stewardship funding for comprehensive institutions
 - Record levels of investment in capital construction
- **Economic Development and Commerce**
 - Commercialization and Innovation operating and capital funds enacted as recommended by the Governor
 - World Equestrian Games Arena at the Kentucky Horse Park
 - Downtown Louisville Arena
 - Expanded economic development bond program
 - AMC Tax relief for small business. While we need to bring legislators back to focus on this issue; the proposal made by the Governor was enacted in the budget bill
- **Health and Family Services**
 - Approval of the Medicaid Modernization waiver (Kentucky Health Choices) upon which the budget was based
 - Expansion of the Supports for Community Living program
 - Additional funds for the Low Income Home Energy Assistance Program (LIHEAP)

- Additional funds for the Division of Aging Homecare program enabling seniors to live independently in their homes as long as possible.
- Governor's Council on Wellness and Physical Activity
- **State employees and retirees**
 - Cost of living increases, on average, for state employees with higher salary increases for lower paid employees
 - Adequate funding for health insurance for state employees and retirees
 - Increases in the employer contribution rates for the Kentucky Retirement Systems
- **Transportation**
 - Significant increases in state road construction
 - State matching funds for the Louisville Bridges
 - Road funds for aviation projects related to economic development
 - GARVEE bonds for projects on I-64, I-65, and I-75
- **Justice, Public Safety and Drug Control**
 - Department for Public Advocacy funding for additional lawyers
 - New funding for probation and parole officers to reduce caseloads, focus on sex offender supervision and focus on substance abuse and mental illness
 - Primary seat belt law
- **Environmental and Public Protection**
 - Creation and funding of the ICARE program to increase health insurance access and affordability for small business
 - Increased mine safety legislation
- **Capital investment to move Kentucky forward**
 - Virtually all of the projects recommended by the Governor were enacted by the General Assembly

Where did the money go?

- 43.8% to K-12 Education
- 14.7% to Postsecondary Education
- 11.7% to Medicaid
- 10.0% to Criminal Justice System
- 7.5% to Human Services
- 12.3% to all other spending

**Percentage of the General Fund Budget by Area of
Government
FY 2007 & FY 2008**



The Balance Sheet

- The Commonwealth, like many states, is struggling to keep its budget structurally balanced, assuring that recurring revenues can meet expenditures.
- The enacted budget has several features that contribute to structural imbalance that will be of concern to us and to the credit rating agencies, including:
 - Record reliance on non-recurring revenues from a sizeable beginning balance in the second year of the biennium and fund transfers.
 - Dependence upon funds that may not materialize:
 - Non-Participating Manufacturers (NPM) assignment of escrows of \$55 million from the Master Settlement Agreement (MSA)
 - “Economic development growth impact funds” of \$20 million
 - Additional Lottery receipts beyond projections (\$7 million)
 - No budgeted dollars to pay for judgments against the Commonwealth and other necessary governmental expenses created by natural disasters, emergencies, and other unforeseen circumstances.
 - Budgeted debt service on many projects for only one-half of the fiscal year. The annualized value will be necessary in the next biennium.

Historical Perspective

- Ability for new funding opportunities created by efficiency and good stewardship measures taken by the Governor.
- Even though the economy is improving, to realize the savings embedded into this budget will require significant additional cost-saving measures.
- Uneven nature of funding across the biennium. Funding is mainly concentrated in the second year of the biennium, which results in challenges in the first year.
- Largest unspecified budgeted lapse in history.
- Limited new spending on the operations of core governmental functions
- Largest capital investment program in the Commonwealth's history.
 - Road bonds
 - Postsecondary education projects
 - Infrastructure Economic Development and Community Development project
 - School construction

Debt Authorized by Sessions of the General Assembly		
1980	\$	689,312,400
1982	\$	534,024,000
1984	\$	535,929,000
1986	\$	494,721,100
1988	\$	364,171,900
1990	\$	1,148,218,400
1992	\$	439,375,100
1994	\$	429,575,900
1996	\$	313,575,000
1998	\$	1,168,030,000
2000	\$	1,046,927,600
2003	\$	835,188,380
2005	\$	1,906,315,300
2006	\$	2,380,824,000

What was Vetoed?

- **Operating Budget Vetoes**

- **Vetoes that Change Budgeted Amounts:**

- The net effect of the line-item vetoes is \$10.6 million in unbudgeted resources for the General Fund.
 - Vetoes of the bond funded capital projects will save \$11.1 million in debt service in fiscal year 2007-2008 for the General Fund, and about \$18.8 million in fiscal year 2008-09.
 - There is a veto of \$500,000 of a grant in fiscal year 2007-2008 for the Patton Museum at Fort Knox. The \$500,000 in fiscal year 2006-2007 was retained. The veto is to reflect that the funding support is to be non-recurring.
 - There is one veto of a fund transfer to the General Fund of \$1 million from the Commonwealth Office of Technology because it would have caused a federal audit exception that would require repayment of around \$200,000.

- **Impose restrictive or redundant reporting requirements to the Legislative Research Commission:**

- **Homeland Security** – vetoed the requirement to report to LRC grants within 15 days of their award. The reporting requirements were not vetoed, just the early deadline.
 - **Commonwealth Office of Technology** – vetoed language requiring COT to report information to the Appropriations and Revenue Committee that is already reported to the Government Contract Review Committee.
 - **Personnel** – vetoed the timeline requirement (within 30 days) of a health insurance report, which would have precluded a full reporting of the required information. The reporting requirements were not vetoed, just the early deadline.

- **Restrict the lapse of unexpended dollars to the General Fund:**

- **School Facilities Construction Commission** – vetoed language that allowed unexpended debt service to not lapse to the General Fund Surplus account. The budget counts on over \$19 million in fiscal year 2005-2006 in debt service to lapse.

- **Community Based Services** – vetoed language that allowed unexpended General Fund expenditures for foster youth transitional assistance to carry forward into the next year.
- **Mandate funding for an earmarked project when the funding is not adequately provided in the budget, or there are other options:**
 - **Parks** – vetoed a requirement for the Department of Parks to spend \$125,000 in existing resources to construct boat slips at Buckhorn Lake State Park. The budget did not provide the additional funds for this.
 - **Transportation-Aviation** – vetoed language that directed funding for projects in excess of the amount budgeted.
 - **Transportation-Highways** – vetoed language that directed funding for two miscellaneous road projects within a broader section of projects that were deemed permissive.
 - **Economic Development** – vetoed a requirement that the Cabinet for Economic Development adequately fund existing industrial parks, and provide other administrative functions that are not the responsibility of the Cabinet.
 - **Personnel** – vetoed language that directed the payment of an audit of the health insurance fund from one particular source.
- **Elimination of fees without an adequate funding replacement:**
 - **Horse Racing Authority** – vetoed language prohibiting the Authority to impose assessments on race tracks without providing replacement funding in fiscal year 2007-2008. The Governor is reserving the option of imposing or suspending the assessments for fiscal year 2006-2007 because the budget did provide an alternative source of funding for that year.
- **Impose restrictive requirements for the expenditure of funds:**
 - **Department of Education** – vetoed language imposing a specific bandwidth for 40 percent of the school districts for the Kentucky Education Network.

- **Council on Postsecondary Education** – vetoed language directing the specific distribution of funds for one program to the six recipient universities.
 - **Kentucky Higher Education Assistance Authority** – vetoed language that would limit Kentucky Tuition Grant funds to students of institutions accredited by a specific accrediting association. 313 current students would be negatively impacted.
- **Suspend procurement laws:**
 - **Council on Postsecondary Education** - vetoed language suspending competitive procurement for the administration of three programs.
 - **Administrative Office of the Courts** – vetoed language that suspended an existing legal option for local governments when procuring the sale of notes to fund courthouses.
- **Impose restrictions on state agencies that could impede operations:**
 - **Kentucky Higher Education Assistance Authority** – vetoed language that imposed a blanket prohibition on transferring the control of investment of the student loan portfolio that could impair ongoing activities of the agency.
 - **Transportation/Military Affairs** – vetoed language prohibiting the expenditure of funds on the expansion or construction of additional runways at the Capital City Airport.
- **Suspend existing laws regarding the licensure of health care facilities:**
 - **Health Policy** – vetoed language suspending a statute to require action by the Cabinet for Health and Family Services where it is already permitted by law. The language also suspended legal authority beyond that needed for the item in the budget.

- **Transfer responsibility or suspend existing authority:**
 - **Economic Development** – vetoed language that placed funding received by the Department of Education for the Coal County Computing Program under the direction of the Kentucky Economic Development Authority.
 - **Eastern Kentucky University** – vetoed language that transferred the authority of the President of the university over the operations of a campus facility to a community board.
 - **Kentucky Community and Technical College System** – vetoed language that gave the President of KCTCS authority to make a real property transaction because it eliminates existing legal process under the authority of the Secretary of the Finance and Administration Cabinet.

- **Earmarked Funds:**
 - **University of Kentucky** – vetoed language that would encourage the University of Kentucky to provide funding to the Cooperative Extension Service to support the County Extension Enhancement Initiative. The result of the veto is that funding to support the Initiative is directed to be provided.

- **Error Corrections:**
 - **Personnel** – vetoed language so that the appropriate portions of a statute are suspended, as was originally intended.
 - **Transportation-Highways** – vetoed the fund designation (federal) of a \$9 million fund transfer to the General Fund, since the federal grant will only allow eligible expenditures to be paid from the grant.

- **Capital Budget Vetoes**

- The \$2.4 billion in debt authorized by the General Assembly is not responsible or sustainable.
- Careful consideration was given to every project in the budget.
- The capital budget was reviewed and built with the following guidelines:
 - Immediacy and strength of economic impact
 - Regional equity
 - Ability to advance individual opportunity
- The Governor has vetoed \$370.3 million in bond-funded projects, or 15.8% of the total, representing annualized debt service savings of approximately \$38 million a year for 20 years.
 - \$165.9 million of General Fund supported bonds are vetoed.
 - \$204.4 million of Agency Fund supported bonds are vetoed.
- This debt authorization package is more responsible, is focused on education and economic development, and will move Kentucky forward.
- Total debt authorized is \$2 billion, representing debt service of 6.8% of revenues.
- Authorized debt for postsecondary education totals \$714.2 million, the highest amount ever appropriated:
 - 13% more than the 2005 Session appropriated, which was a record amount then.
 - \$479.9 million in General Fund supported bonds – the highest ever.
 - \$234.3 million in Agency Bonds – the highest ever.
 - 36% of all bonds authorized in the budget are for postsecondary education.
- Project designations for projects to be funded from the \$60 million Parks Development Pool have been vetoed, except for the \$2.5 million for Big Bone Lick State Park. The list of authorized parks projects in HB 557 exceeded the amount of funds available in the pool by over \$5 million.
- The Governor also vetoed projects authorized for funding from coal severance tax receipts in single county accounts within the Local Government Economic Development Fund.

- The project designations are vetoed, but not the funding that will be available to the respective counties pursuant to KRS 42.4592.
- Pursuant to Part I of HB 380, the funds received by the respective counties from coal severance receipts may be used to support nonrecurring investments in public health and safety, economic development, public infrastructure, information technology development and access, and public water and wastewater development, with concurrence of both the respective fiscal court and the Governor's Office for Local Development or the Kentucky Infrastructure Authority, as appropriate.
- The Governor is taking this action because he believes that local officials and communities should have more involvement in the decision making process for the investment of these funds that are returned to their communities as a result of the severance of minerals. This is how the program was and is intended to be operated.